23 June 2022

Naked Wines plc

("Naked Wines" or "Group")

Full Year Results for the 52 weeks ending 28 March 2022

Strong execution in the face of external headwinds

Responsible growth driven by sustained repeat customer demand; increases in winemakers and Active Angels consolidate step-change gains made last year

- Total sales increased 5% YoY on a constant currency basis[1] (+3% on a reported basis) to £350.3 million
- On a two-year basis vs FY20, group sales increased 78% on a constant currency basis vs continuing operations (73% reported)
- Repeat Customer sales retention[2] of 80% (FY21: 88%), reflecting the continued resonance of our proposition
- Active Angel base (our subscription customers) grew to 964,000, a 9% increase over FY21
- Repeat Customer Contribution profit[2] of £86.2 million vs £84.9 million last year driven by a 13% increase in Repeat Customer sales on a constant currency basis [1]
- Investment in New Customers[2] of £41.3 million, delivering a 5-Year Forecast Payback[2] of 1.5x, as we continued to invest into the significant growth opportunity while managing through the challenging market environment
- Adjusted EBIT[2,3] of £2.0 million vs a loss of £1.5 million in FY21
- Closing cash balance of £40 million (FY21: £85 million), and increased inventory assets of £142 million (FY21: £76 million)

Nick Devlin, Group Chief Executive, commented:

"Naked Wines started from the simple idea that there was a better alternative to the traditional wine industry model, and that by connecting wine drinkers directly to world-class independent winemakers you could deliver a win for both winemakers and drinkers. In FY22 we are delivering on that idea at scale; we connected 964,000 Active Angel members to 266 incredibly talented independent winemakers; offering consumers a direct connection to where their wine comes from and access to high quality wine at affordable prices.

Our unique model offers a win for both winemakers and consumers and generates attractive and well-proven unit economics. In the past year we moderated investment responsibly as we navigated inflationary challenges. In that context, I'm pleased with the substantial growth in sales to repeat members supported by sales retention above our expectations for the year at 80% and our ability to deliver profitability.

Looking ahead Naked Wines is well positioned to continue to grow amidst a changing consumer environment. Our enhanced scale, attractive unit economics and healthy balance sheet allow us to continue to invest for growth. At the same time we will not pursue growth at any cost, and our guidance is that we intend to trade the business at or around breakeven this year. We believe this is the responsible balance to strike in FY23, mindful of the levels of

macro-economic uncertainty but also of the opportunities we see ahead and the potential for disruptive models like ours to gain traction in tough times as consumers revaluate their purchasing choices. Additionally we will focus on steps to ensure our contribution economics support sustainable growth and on striking an effective balance of quality and volume. I believe these steps will best enable us to increase customer lifetime value and therefore over the mid-term maximise our ability to deliver attractive, sustainable growth"

Outlook

Given the current macroeconomic environment, which has greater uncertainty, we expect to manage to on or around a break-even adjusted EBITDA (excluding share-based compensation and non-cash charges). Additionally, given this uncertainty, we provide the following guidance and will update as the year progresses:

- Total Group sales expected to be in the range of £345 million to £375 million (-4% to +4% on a constant currency basis). This sales guidance is based on a USD/GBP exchange rate of 1.299. Furthermore, we expect year-on-year sales growth to accelerate throughout the year.[5]
- Investment in New Customer acquisition expected to be in the range of £30 million to £40 million, as we maintain our disciplined approach to investment spending.
- Repeat Customer Contribution profit is expected to be in the range of £83 million to £93 million.
- General and administrative costs are expected to be in the range of £45 million to £48 million. Additionally we expect to invest £5 million in Marketing R&D and incur £4 million of share-based compensation charges.
- We entered into a $60 million credit facility shortly after the year end which includes covenant commitments.

Total Group	**As reported (unless otherwise stated)**				
	FY22 £ million	FY21 £ million	FY20 £ million	FY22 vs FY21 %	FY22 vs FY20 %
Total Sales	**350.3**	**340.2**	**202.9**	**+3%**	**+73%**
Growth on a constant currency basis[1] (not reported)				*+5%*	*+78%*
Gross profit	**141.7**	**135.5**	**77.6**	**+5%**	**+83%**
Gross profit margin	***40%***	*40%*	*38%*	*+60bps*	*+220bps*

Contribution profit[2]	**79.1**	**77.2**	**42.6**	**+2%**	**+86%**
Contribution profit margin	***23%***	*23%*	*21%*	*(10)bps*	*+160bps*
Adjusted EBIT[2,3]	**2.0**	**(1.5)**	**(2.4)**	**nm**	**nm**
Adjusted PBT/(LBT)[2,4]	**3.0**	(0.5)	(2.9)	**nm**	**nm**
Profit/(loss) for the period	**2.9**	(10.7)	(5.4)	**nm**	**nm**

KPIs	**FY22**	FY21	FY20	FY22 vs FY21 %	FY22 vs FY20 %
Repeat Customer sales	**£315.1m**	£283.9m	£173.7m	+11%	+81%
Repeat Customer sales growth on a constant currency basis[1]				*+13%*	*+86%*
Repeat Customer sales retention	**80%**	88%	83%	(800)bps	(300)bps
Investment in New Customers	**£(41.3)m**	£(50.0)m	£(23.5)m	(17)%	+76%
Active Angels (Repeat customers)	**964k**	886k	580k	+9%	+66%
5-Year Forecast Payback	**1.5x**	2.6x	2.6x	(1.1)x	(1.1)x
Year-1 Payback[2]	**68%**	82%	67%	(1,400)bps	+100bps
Standstill EBIT[2]	**£21.2m**	£39.3m	£9.6m	(46)%	+121%

Naked Wines plc will host an analyst and investor conference call at 2pm BST / 9am ET / 6am PT on 23 June 2022. The conference call will be webcast at the following link. Alternatively, the webcast link can be found in the Financial Calendar section of our IR website: https://www.nakedwinesplc.co.uk/investors/. A recording will also be made available after the briefing on our results in the announcements section of our investor website.

-------Notes:

1. Constant currency basis using the current year's period exchange rates for the translation of the comparative period in the previous year.
2. In addition to statutory reporting, Naked Wines reports alternative performance measures (APMs) which are not defined or specified under the requirements of International Financial Reporting Standards (IFRS). The Group uses these APMs to improve the comparability of information between reporting periods, by adjusting for certain items which impact upon IFRS measures, to

aid the user in understanding the activity taking place across the Group's businesses. Definitions of the APMs used are given at the end of this announcement.

3. Adjusted EBIT is operating profit adjusted for amortisation of acquired intangibles, acquisition costs, impairment of goodwill, restructuring costs and fair value movement through the income statement on financial instruments and revaluation of funding cash balances held.
4. Adjusted PBT/(LBT) is defined as Adjusted EBIT less net finance income / (charges).
5. Please note that FY23 is a 53-week year (occurs every seven years) given 4-4-5 retail fiscal calendar, which contributes approximately £5 million of sales or two percentage points of growth.

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About Naked Wines plc

Naked Wines connects everyday wine drinkers with the world's best independent winemakers.

Why? Because we think it's a better deal for everyone. Talented winemakers get the support, funding and freedom they need to make the best wine they've ever made. The wine drinkers who support them get much better wine at much better prices than traditional retail.

It's a unique business model. Naked Wines customers commit to a fixed prepayment each month which goes towards their next purchase. Naked in turn funds the production costs for winemakers, generating savings that are passed back to its customers. It creates a virtuous circle that benefits both wine drinker and winemaker.

Our mission is to change the way the whole wine industry works for the better. In the last year, we have served more than 960,000 Angel members in the US, UK and Australia, making us a leading player in the fast-growing direct-to-consumer wine market.

Our customers (who we call Angels) have direct access to 266 of the world's best independent winemakers making over 2,500 quality wines in 20 different countries. We collaborate with some of the world's best independent winemakers like Matt Parish (Beringer, Stags' Leap) and eight time Winemaker of the Year Daryl Groom (Penfolds Grange).

Chairman's letter

Charting a course to responsible, sustainable growth

With a market ripe for disruption and our greater scale achieved over the past few years, this is a moment to be bold, but also thoughtful.

Darryl Rawlings
Chairman

This letter marks my first year since assuming the role of Chairman of Naked in August 2021.

Over the course of the past two years, Naked has thrived despite market and business challenges. Our team executed with diligence and drove substantial growth in both Active Angels and Winemakers from FY19-21, increasing our scale and giving us greater resources to invest in growth. In FY22, we consolidated these gains with incremental growth that, while below the expectations set out at the beginning of the year, further raised the platform on which we will execute against our large future growth opportunity.

In my role as Chairman, I'm aware that this is a key moment in determining how we utilise our platform to achieve our ambitions. Like any other business emerging from the pandemic, we must candidly revisit our goals, how we do business and how we apply the learnings of the past two years to best achieve our opportunities. For Naked's business, the team recognises that consumer behaviours will evolve and that we also must execute with discipline amid lingering challenges ranging from supply chain disruptions, recessionary economic conditions and global conflict.

Despite external unpredictability, there is significant good news for Naked: our central opportunity to disrupt the wine industry is as strong and realisable as ever. We estimate a $25 billion[1] market opportunity and we have plenty of opportunities to grow in all our markets, especially the largest, the US.

With a market ripe for disruption and our greater scale achieved over the past few years, this is a moment to be bold, but also thoughtful. To achieve our ambitions, we cannot just grow for growth's sake; rather, we must chart a course for responsible, sustainable growth.

That starts with ensuring we fully appreciate our underlying strength and how best to optimise it in preparation for growth. The core of Naked's business, and our opportunity, is our value proposition to winemakers and to Angels. We are delivering to a high standard today, but it's management's assessment that we have much to improve upon and the Board agrees.

With a sharp focus on the quality and value of our customers, winemaker partners and the products we deliver, we believe we will be in the best position to drive intrinsic value creation for all of our stakeholders.

Unit economics matter in a consumer-driven business and over time Naked has proven its economic model. As the CEO of a US consumer-facing technology-driven company as well as Chairman of Naked, I greatly value Naked's strong orientation to operating in a data-driven manner. Culturally and financially, this is very important to driving sustainable growth.

The team recognises that as we grow and consumer behaviours evolve, so must we. This starts with a sharper focus on driving improvement in the lifetime value (LTV) of our now 964,000 Active Angels. Naked has doubled its revenue over the past several years and has a large addressable market. We want to optimise the value we derive from that market; to do so you will see us adjust our go-to-market strategies toward driving higher LTV. Nick's report covers these strategies in more detail; in the big picture they are designed to drive spending efficiencies and better results in both new customer acquisition and driving repeat order activity and "winbacks" of former members returning to Naked.

We are also focusing on quality across our range of products as we continue to introduce new relationships with well-known winemakers. This report highlights some of the exciting new wines we'll be bringing to our Angels this coming year and beyond.

To an extent, our focus on quality relative to quantity informs the preliminary trading outlook we've provided for FY23. That said, we are confident that our approach will be in service to our objective of continuous commercial improvement that delivers a larger, and also more valuable, customer base over time.

Underneath the tweaks Nick, Shawn and their teams are making to the business model, our Board is taking fundamental steps to better position Naked to capture our largest opportunity in the US. Not only is our TAM larger in the US, our business model is tailor-made for that market. American consumers appreciate doing business with sustainable, responsible companies that can improve their lives by delivering higher quality experiences at lower cost and we believe wine is one of the dwindling number of large markets in the US that have yet to be significantly disrupted. Nearly a century after Prohibition in the US, the legal structure around the drinks industry affords ample room to distributors to benefit from economic inefficiencies in the transportation, sale and delivery of wine.

Driving intrinsic value creation for all stakeholders

We aim to dramatically close that gap. Achieving it will bring great benefits to shareholders but achieving it responsibly will bring even greater benefits to all of Naked's stakeholders. Our report outlines our substantial achievements in sustainability and I'm proud to represent a company with Naked's track record.

Governance is also a critical component of growing responsibly. Naked's regular refresh of its Board ensures we mix continuity with fresh opinion and insight. I want to thank David Stead and Katrina Cliffe for their outstanding work and contributions as non-Executive Directors over the past five and three years, respectively. I'm also greatly looking forward to partnering with our incoming independent Directors Deidre Runnette and Melanie Allen. Deidre and Melanie will bring deep experience in their fields to the Board and additionally their first hand experience enabling companies to successfully scale in the US market will be of great value to Naked at this stage of our development.

In Katrina's final year with Naked, she has spearheaded a very important initiative in our responsible growth strategy. In her remuneration report she outlines our new Long-Term Incentive Plan (LTIP), designed to align equity compensation not just with financial performance but with the intrinsic value Naked creates as a corporation. The Board has observed that our prior LTIP did not optimally incentivise the interests of our people and those we hoped to recruit to the company. Our new approach is more aligned with US practice, with a central focus on intrinsic value creation, which we will now be measuring annually and our equity incentive structure will be aligned accordingly.

Achieving our goals, responsibly

Our Board and team are energised entering FY23. The opportunity ahead is tremendous and we have a stronger foundation and greater scale to go after it. But how we go after it is as important as our business execution. Naked is committed to building a responsible, sustainable growth company, one with a strong focus on data-driven strategies, improving unit economics, aligned and properly incentivised people and smart capital allocation. With a sharp focus on the quality and value of our customers, winemaker partners and the products we deliver, we believe we will be in the best position to drive intrinsic value creation for all of our stakeholders.

Darryl Rawlings
Chairman

1. Source: internal research 2020

Chief Executive's review

Strong execution in the face of external headwinds

Naked navigated a dynamic consumer environment and inflationary pressures well in FY22 and consolidated the step change achieved in FY21.

Nick Devlin
Chief Executive Officer (CEO)

In the past year we have:

- Consolidated last year's step change in scale and delivered 5% growth against challenging COVID-19 boosted comparatives on a constant currency basis (3% reported).
- Increased Active Angels to 964,000 from 886,000 in the prior year.
- Achieved sales retention of 80%, well above our guidance for the year of mid-70s, as our differentiated model resonates with our members.
- Invested in reinforcing the technology infrastructure of the business to support our rapid growth and establish the platform for the years to come.
- Made significant progress against key areas of strategy to enhance our customer proposition.

Successful execution in a challenging environment

Over the last year, our teams have executed effectively to enable Naked to navigate a dynamic consumer environment and inflationary pressure to deliver a year which has seen Naked consolidate the rapid gains made during the pandemic and reinforce our platform for future growth.

Throughout the year we have been pleased to see the extent to which sales retention rates have exceeded our expectations. At Naked, sales retention is the analogue to same-store sales in a traditional retail business and looks at like-for-like repeat revenue on a constant set of Angels who were members throughout the comparison period. We envisaged a fall in retention given the "excess" frequency and order values generated during the pandemic highs of FY21. Whilst our achieved retention rate of 80% trails the 83% recorded in FY20, our last pre-pandemic comparison, it exceeded our expectations of a result in the mid-70s and reflects the extent to which Angels have discovered something better than the old way of approaching wine. In any recurring revenue business the retention rate is of the utmost importance and the results achieved this year reflect the sustained hard work of our teams and our continued investment in the range and customer experience.

The corollary to the high retention rate is the continued positive development of the returns on maturing cohorts. As business metrics stabilise it is instructive to look at the latest payback estimates for these cohorts.

- All cohorts up to and including FY21 have "paid back", i.e. payback >1x
- Realised returns remain well ahead of initial projections for FY17-19 cohorts
- Our expected 5-year return for FY16 through FY21 is 2.6x, materially ahead of our target range of 1.8 – 2.2x

Cohort	Age at reporting date	Latest 5 year (forecast)	Original forecast	Payback to date
FY16	73-84 months	3.1x (actual)	3.1x	3.8x
FY17	61-72 months	2.5x (actual)	2.0x	2.8x
FY18	49-60 months	2.7x	2.1x	2.5x

FY19	37-48 months	2.3x	1.8x	1.9x
FY20	25-36 months	2.6x	2.6x	1.6x
FY21	13-24 months	2.6x	3.0x	1.2x
FY22	0-12 months	1.5x	–	0.3x

The challenges of the year

Whilst there is much that I am pleased with in how we have navigated an economic and consumer environment during FY22 that was the most challenging that I have seen in my time with Naked, it is equally clear from the table above that we have fallen short of our payback goals this year. Whilst in time I believe we may realise better than the initial projection of 1.5x, this result is still one we are disappointed with, and therefore it is worth explaining the reasons for the results we achieved and the actions we are taking to address this.

The primary challenge we have faced has been one of volatility, with consumer sentiment and behaviour evolving rapidly as markets emerged from COVID-influenced restrictions at different rates and then in the latter part of the financial year as consumers began to feel the impact of inflationary pressures on household budgets.

At Naked our investment model is based on our ability to make upfront investments to acquire New Customers and then to convert those new customers into satisfied and loyal long-tenure members. That is the real-world version of our payback calculation: investment upfront to generate a forecastable and predictable stream of cash flows over the following five years. It is fair to say that the level of volatility observed, as well as the impact of cost pressure on Repeat Contribution margins, have provided a stern test of our ability to forecast mid-term returns.

There are elements of how we have handled this where we could have done better. In particular, we might have been quicker to acknowledge that the combined inflationary pressures we saw were likely to endure, at least for the mid-term, and as such could have accelerated measures to mitigate their impact on customer LTV. Whilst those measures are now underway, for example through “winback” initiatives, the reduction in margins we saw in FY22 is currently flowing through our models and impacting our projected payback levels.

That said, throughout the year our marketing teams have operated with good discipline in their investment decisions and we have rationally pulled back spend at times where marketing inflation has rendered some channels unattractive for periods of time. The shape of our payback in FY22 reflects this, with clear action taken through the year to respond to lower than targeted returns and an improved run-rate at the end of the year, with our key US market returning to its long-term payback range in the 4th quarter.

Continuing to strengthen our points of difference

Near term operational challenges are always to be expected, even if the specifics are hard to foresee. I am pleased to say that we have maintained our focus this past year on delivering against our strategy to strengthen the consumer and winemaker proposition at Naked to best capture our long-term growth opportunity.

Enhancing our consumer proposition

We have made substantial progress against our key goals for the customer proposition over the last 12 months.

Nowhere is this more clear than in our range of wines and winemakers

At Naked our driving motivation is to create a model that is a win for both customers and winemakers. We believe that in creating a direct route to the consumer for world-class independent winemakers, we are best able to create value for our members.

Over the last year I have been delighted to welcome to Naked a number of leading winemakers from around the world that reflect the excitement in the winemaking community for the unique proposition Naked can offer. To share a few highlights:

- Rudy von Strasser chose to move exclusively to working with Naked, allowing us to share his multi-award winning Diamond Mountain cabernets with our members in the US
- Biodynamic producers Kaufmann Wines – rated as one of Germany's rising stars are an especially exciting addition. Kaufmann offered their Riesling at a special price to include as part of our Ahr Valley rescue case (see our community good causes further below) and this formed the beginning of a flourishing relationship with more wines subsequently added to the Naked UK range and a US listing to follow
- This autumn we will release the debut Naked project from Willamette Valley icon Ken Wright – attracting one of the founding fathers of the Oregon Pinot Noir scene to make an exclusive project for Angels is further testimony to the growing appeal of our platform

We are focused on expanding the diversity of choice we offer Angels in all our markets, through an increased range of styles that deliver the value we're known for while also building a more complete offering at Luxury price points. These aren't new initiatives, however, when done with authenticity the development of winemaker partnerships takes time, and I'm delighted to see the dividends of much hard work being reflected in our performance over the past 12 months.

In Australia we saw average order values increase alongside gross margin enhancement as we saw the benefits of a full review of our range. In the US an expanded selection of Luxury wines offered in our holiday quarter saw bottles sold at price points over $25 per bottle increase by 110% versus the prior year.

We have long known that the Naked model has an acute ability to disrupt the Luxury part of the wine market, where the disconnect between production cost and retail price is most pronounced. The benefits to Naked as we show an ability to grow volume in these areas are multiple:

- An ability to invest in Luxury projects further enhances our appeal to winemakers
- Angels benefit through an expanded set of choices, especially for special occasions and longer-term cellaring, whilst also able to enjoy substantial savings vs like quality wines
- As we encourage more of our Angels to shop at these price points, we develop a powerful lever to expand share of wallet and enhance LTV
- Increasing average bottle prices also offers us contribution margin efficiency as we more effectively leverage the fixed costs associated with distribution of our wines

Of course, I firmly believe the best wine is the wine that you have yet to make. As I look ahead, I'm especially excited at a series of projects we are working on with Matt Parish to showcase some of the leading vineyard sites in Napa through an exclusive AVA designate series.

Gaining important recognition for our quality

Coincident with upleveling our range of wines, we've also set out to enhance our quality perception and I am pleased to say that we have made substantial progress this year. At Naked we track our brand perception in all our markets. Our latest set of results shows marked improvements for our key quality indicator – the belief Naked 'sells high quality wine'. Equally we are seeing improvements in brand comprehension and strengthening of our association with the support of independent winemakers.

Whilst we strongly believe that the greatest validation possible for our wines is found in the 32.6 million reviews on the Naked platform, we have set out over the last year to increase the level of 3rd party recognition for our wines primarily as a way to shape the perception of Naked in the market at large. I am delighted, although not surprised, with the results:

Decanter wine awards: 226 wines entered by our US business with 163 Bronze+ winners, including two platinum awards; 75 wines entered by our UK business with 54 Bronze+ awards and 13 Bronze+ awards from our Australian business

International Wine & Spirits Competition awards: 150 wines entered by our US business with 123 Bronze+ winners; 125 wines entered by our UK business with 102 Bronze+ winners

International Wine Challenge awards: 36 wines entered by our UK business with 34 award winners

Time and again, and in the most competitive of international awards, the pattern is clear. Naked's unique model lets winemakers focus on what they do best – making world-class wine – and does so in a way that strips out unnecessary costs. That translates into consistent success when their wines are blind tasted against those of their peers.

Improving our go-to-market strategy

The challenges in the digital marketing environment in the past 12 months have been well documented and extensively discussed. This has been a period of time where two elements have been important for Naked:

1. Diversity – we diversify investment across an array of customer acquisition channels, including unique direct partnerships with third parties to distribute physical vouchers

2. Discipline – we have demonstrated, including in the past financial year, that when markets occasionally get irrational, we will hold back capital. We will continue to do so in the future

Alongside our efforts in paid marketing channels we have begun to test a number of remarketing strategies in the 2nd half of the year. We believe that these strategies have the ability to scale substantially, and over time to represent up to 40% of total new membership additions. The results to date have been encouraging and give us confidence we can scale these initiatives in FY23:

- A proven ability to "winback" material numbers of former members, via a mixture of free and paid channels. The benefits are twofold. The cost of acquisition is substantially lower, and by leveraging our machine learning models to predict likely value of former members, we have been able to achieve consistently higher LTV on winback Angels versus first-time recruits
- Proof of concept of our ability to effectively remarket to leads we have generated via paid marketing who have not converted. We believe the ability here even extends to leads that we generated a relatively long time ago – which means we have an extensive lead pool, available at little or no cost, that we have not extensively exploited to date

In the final quarter of FY22 our aggregate remarketing efforts represented 34% of members acquired, an increase from 18% in the prior year. The traction achieved here, led by our US market, played a key part in returning payback in Q4 to our long-term payback range. We believe an increasing allocation of resources to support remarketing can yield further improvements in the year ahead.

Building with sustainability at our core

In all aspects we believe that building a sustainable business that looks to have a positive impact on the communities it operates in is not just the right thing to do: it's also good business. In the past year I've been delighted to see us make progress on a number of dimensions as well as continuing to support our teams and winemakers in giving back to their communities.

As a wine company, we are acutely aware of our reliance on the planet to produce the products we sell and our role in ensuring that it is sustainable for the long term. This year we have focused on a number of initiatives to reduce the carbon footprint of Naked:

- We have saved 673 tonnes of CO_2 through the introduction of lighter-weight glass bottles. Working directly with winemakers, we see their passion for finding ways to reduce the environmental impact of our industry in ways that have no impact on consumer enjoyment. Our ability to connect winemaker and consumer directly and explain the benefits of packaging innovation has enabled us to move rapidly in this area
- Another area of innovation over the past year has been the development of a range of premium boxed wines, initially launched in our UK market. Six of our leading wines have been made available in 2.25L box formats to date, with over 12,000 Angels choosing a boxed wine in FY22

The size and strength of the Naked Angel community also gives us a unique opportunity to amplify good causes and have a positive social impact. In total in FY22 Naked raised over £1.5 million for good causes. Among my personal highlights:

- The AHR Germany campaign, where our UK business sold 3,000 cases of a six bottle German wine 'rescue case' with all profits donated to the German Wine Institute-backed Ahr Valley relief fund
- Partnering Californian winemaker Macario Montoya in his Latino Winemakers Foundation, which focuses on mentoring and advancing the careers of Latino winemakers

Our Carmen's Kids 2022 appeal to provide daily nutritious meals to hungry children in South Africa's poorest communities launched on 6 May, and once again our Angels have shown how generous they are in supporting this charity. This year we have raised over £600,000 to feed more than 27,300 children.

The next horizon for growth

When I became CEO of Naked in January 2020, I inherited a great business with a unique consumer and winemaker proposition and compelling unit economics. However, Naked had been a capital constrained company and was sub-scale as a result. Looking back, our internal ambition at the time was to double the size of the business over a five-year time horizon.

At the end of FY22, Naked by our own metrics is 183% the size it was back in January 2020 (rolling 12 month constant currency sales). Undoubtedly, external factors beyond anything we contemplated at that point have played a part in the speed of that growth, but equally the ability to scale rapidly reflects the underlying strength of the Naked model, the resonance of the proposition and the quality of the winemakers we have brought on board. As we now start to see signs emerging of a post pandemic landscape – both for consumers and for the online

wine market – now is the right time to outline our beliefs for the next five years for Naked Wines.

Those beliefs start with an affirmation of what we know and have proven over time. Today Naked is the world's #1 direct-to-consumer (DtC) wine business, connecting 964,000 customers directly to over 260 world-class winemakers. This direct connection is core to our differentiation. It enables us to put great wines in the hands of consumers without costly multi-level retail infrastructure, not only saving them money but affording them the powerful emotional benefits of discovery and proximity to the vintner.

For winemakers, Naked's model offers a distinct combination of autonomy, reward and scale. We're good for their businesses, and we help them build stronger relationships with the consumers of their product.

In this way we are not only differentiating our company, we are leading a transformation of the wine industry. The powerful economics of our model lower production costs, enable the sharing of scale benefits and disintermediate traditional retail distribution.

These are enormous wins for both winemakers and consumers. Of course, our shareholders are positioned to win as well. Our attractive unit economics are proven, and we think we can make them better. And we believe we are still in the early stages of our growth, with a $25 billion TAM in our targeted markets in which we have only a 2% penetration today. Our ability to increase that penetration is further supported by consumer behavioural trends, which favour migration to online purchasing and access to products of localised provenance. If "farm to table" has helped characterise consumer preferences in the dining trade, then Naked is providing a "vine to glass" model for consumers who want to discover great wines and feel closer to the artists who craft them, but without the premium cost often associated with local provenance.

We also believe that the key elements of competitive differentiation are substantially strengthened:

- We continue to grow our network of relationships with the world's best winemakers, and to deepen those relationships.
- Our continuing revenue growth reinforces our scale advantages in production and distribution.
- We have a great opportunity to more fully utilise 13 years of proprietary data around customer behaviour, LTV and wine preferences, for the mutual benefit of our winemakers, our Angels and our Company.
- Our $60 million credit facility signed after the year end on 31 March provides us with additional balance sheet strength and flexibility.

Over the next five years we see the opportunity to double the size of Naked again through a sustained focus on enhancing the differentiation of our proposition for consumers and winemakers.

By continuing to capture share of our $25 billion TAM, we can create substantial value for all our stakeholders. And we can do that by staying true to the approach that has brought us this far: disciplined investment in growth supported by a clearly differentiated model that offers a unique win-win for winemakers and wine drinkers.

The next opportunities we will focus on

As I recall from a distant past as an undergraduate historian, there is a danger to outlining five-year plans; the future has a habit of unfolding differently to how you imagine. However, there are a number of key parts to our thinking around the future opportunity for Naked that we can share with confidence.

One guiding thought is to recognise that the path to our goal will not be linear. In FY23 our focus will be on laying the foundation for our next five years and ensuring that Naked is robustly set up for sustainable growth. There are three important objectives as part of the first horizon of our long-term plan:

1. Ensure our contribution economics support sustainable growth

We've been clear that as a management team we believe in the power of sharing the benefits of scale – with our customers and our winemakers – as a method to create long-term value. However, it is important to be clear that this is not the same as a belief that (i) prices need never increase nor indeed that (ii) a scaling business should not be able to realise some improvement in margins. Instead it reflects our philosophy that when presented with a choice, we are minded to favour the path of sharing gains with all stakeholders over that of maximising short-term returns.

The past year has seen sustained inflationary pressure impact our sourcing, our supply chain and our overhead base. In response to that, we are taking measures to ensure that our contribution economics are appropriate to convert customer lifetime revenue to lifetime value at a rate that supports our growth ambitions. In doing this, the Naked model offers a number of advantages. It is helpful to outline them briefly here in turn:

1. Vertically integrated production model = high control over products and input costs
2. Exclusive brands and products = no direct consumer price comparison
3. Efficient DtC model = well positioned to minimise inflationary impact
4. Measurable consumer surplus = room to sustainably take price
5. Ownership of sales channels = scope to drive margins via range and price point mix

These are precisely the characteristics that have allowed our Australian division to increase Repeat Customer Contribution margin from 24% in FY20 to 28% in FY22 (and 30% in the final quarter of FY22). This was achieved with no impact on our sales retention rates in Australia and without compromising on the consumer surplus we believe we should offer in all parts of our range.

Indeed, in October 2021 we promoted the leader of our Australian team, Alicia Kennedy, to the new role of Chief Operating Officer (COO) for the Group – and in that capacity Alicia will be working with our teams in the UK and US as we roll out the successful learnings to those markets.

2. Set the right balance between quality and volume

All aspects of Naked have seen tremendous growth over the past two years since FY20.

- Active Angels (+66%)
- New Customer Investment (+76%)
- Repeat Customer Contribution profit (+86%)
- And all our markets

While the level of growth achieved has been impressive, it's important that we consistently challenge ourselves with a view to the most efficient and value creating way to generate sustainable long-term growth.

In parts of our business over the last 12 months we haven't got the balance quite right. We have driven volume of new members at the expense of quality and in the UK in particular have

allowed our market positioning to shift to become the lowest price online player – which is not consistent with our ambition to be the world's leading quality online wine platform. Some of the impact of this can be seen in our payback outcome reported for FY22 cohorts. Whilst the payback of 1.5x is in part a factor of short-term cost pressures, we would likely have fallen slightly short of our desired return range in any event.

We have commenced work to retest our formula for customer acquisition to reflect the changes we have seen in competitor and consumer environments as well as in our own cost base. We expect that the result of those changes, which will be most apparent in the UK, will be:

- A short-term reduction in New Customer Investment
- Improved margins on New Customer sales (reflecting a reduction in subsidy of initial orders)
- Increased payback as we orientate the business towards higher quality, sustainable growth
- A reduction in FY23 revenue growth rate, driven primarily by New Customer revenue

We will accompany this work with the steps to enhance repeat contribution margins outlined above to fully exploit the potential from repositioning towards a higher quality customer mix.

3. Increase investment in translating traffic to LTV

The only sustainable way to build a high growth business is to be able to convert traffic effectively to customer lifetime value. In FY23 you will see us shift a balance of our new customer marketing investment further into our customer acquisition funnel, most notably lead conversion and initial trials. For a business like Naked, converting purchase intent is lower cost and therefore payback accretive than, for instance, further increasing paid marketing to drive additional traffic. This is of course not a new reality, and in truth I believe we have underinvested here in recent years. In FY23 we intend to set about correcting that!

We believe we have three areas in which we can effectively allocate our resources to capture these benefits and therefore strengthen Naked's underlying economics.

The first of these will be investing more in our teams that focus on Conversion Rate Optimisation (CRO). CRO has been a consistently impactful value creation lever for Naked, but we believe that we have the opportunity to accelerate the rate at which we deliver value in this area. Under the leadership of our new Chief Operating Officer (COO), we are increasing investment in our Product teams in this area and taking a more coordinated global approach to our CRO roadmap. In the last six months we have seen encouraging results in our improved ability to match our initial conversion funnel experience and New Customer offer to different types of traffic, and this is one of the areas we believe can support our objectives to drive sustainable growth.

Our second area in which we are increasing investment and applying a coordinated global approach is the challenge of converting initial trial of the Angel model to ongoing loyal members. In a model with high Repeat Customer sales retention of 80%, the impact of better conversion to second order is highly leveraged. Equally, for a business with a unique consumer proposition and an exclusive product range, new members have different needs from our long-term Angel members. We believe a coordinated effort that looks at the requirements from a wine, digital product and marketing communications perspective for Angels in their first 90 days can yield a meaningful improvement. The impact on our cohort economics, and thus our ability to invest sustainably in growth, is substantial. Improving second purchase rates by 10% should drive a 3ppts improvement in cohort IRR. Why are we confident in our ability to achieve this? Put simply, this is the single area in which our underinvestment is most stark! To date we have had no dedicated resources aligned to this part of the journey, so we start with a relatively clean slate and a rich set of hypotheses to test.

The third part of our focus on sustainable growth economics is a continuation of work we have begun this year to better monetise the leads we already have in our business. As Naked has aged, we have amassed a large and valuable pool of leads, both (i) former members, who we have shown remain highly engaged and often willing to rejoin, and (ii) prospects we have details for who have never yet tried our wine. In FY22 we have made substantial progress in building effective and repeatable marketing campaigns to better realise value from these lead pools; however, I expect we will be able to make further progress here in the year ahead. To do so we will be allocating more internal resources to content generation and remarketing and ensuring that our internal incentives reward value creation via remarketing as effectively as the investment to acquire first-time new members.

Future prospects

We have built Naked into the world's #1 DtC wine business, connecting 964,000 customers to over 260 world class winemakers. Over the course of the two and a half years since we took the decision to dispose of our UK retail assets to focus on the growth of Naked globally, we have nearly doubled the size of Naked Wines.

At a time when consumers and winemakers around the globe are facing a challenging economic outlook, I believe Naked is more relevant than ever. Our differentiated model is a win for winemakers, offering them a path to scale, financial security and the platform to build the leading wine brands of the future. For consumers, our mission to strip out the unnecessary and non value-adding layers of intermediary and offer direct access to world-class wine has never been more relevant.

I'm more motivated than ever to build a better alternative to "wine as usual".

Nick Devlin
Chief Executive

Financial review

Consolidated the step change achieved last year to deliver continued growth in winemakers and Active Angels in FY22, as well as positive Adjusted EBIT

Naked Wines delivered another solid year in FY22, building on the scale we've implemented throughout the business and despite difficult comparisons to FY21. We are better positioned than ever to capture the tremendous opportunity ahead of us, with continued enhancements to our overall value proposition and planned investments in customer acquisition.

Shawn Tabak
Chief Financial Officer (CFO)

Group performance

Naked Wines continues to disrupt the wine industry with its superior value proposition for both winemakers and consumers. We've come a long way in building what today is a pre-eminent online wine marketplace. And we still have significant opportunity to grow and scale the business by capturing more of our estimated $25 billion total addressable market (TAM). We aim to do so by investing intelligently in customer acquisition and our value proposition, persistently employing a data-driven focus on unit economics.

In FY22, Naked Wines continued to increase sales on top of significant acceleration in the business in the prior year. Repeat Customer sales increased 13% over FY21 on a constant currency basis, driven by strong sales retention of 80% and execution in the business.

Our loyal Angel base continues to enhance our appeal to top winemaking talent. And as we've grown (78% constant currency sales growth comparing FY22 to FY20), we've been able to add even more talented winemakers producing beautiful wines that continue to improve and enhance the customer value proposition.

Our Angel subscriber base increased to 964,000 Active Angels, a 9% increase over FY21. Repeat Customer Contribution profit[2] was £86.2 million, a £1.3 million increase over FY21, driven by the increase in Repeat Customer sales and offset by a decrease in our Repeat Customer Contribution margin driven by disruption in the global supply chain and increases in logistics and transportation costs.

	FY22 £ million	FY21 £ million	FY20 £ million	YoY var	2YoY var
Total sales	**350.3**	**340.2**	**202.9**	**+3%**	**+73%**
Constant currency growth				+5%	+78%
Cost of sales	(208.6)	(204.7)	(125.3)	+2%	+66%
Gross profit	**141.7**	**135.5**	**77.6**	**+5%**	**+83%**
Gross profit margin	40%	40%	38%	60bps	220bps
Fulfilment costs	(62.6)	(58.3)	(35.0)	+7%	+79%
% of total sales	18%	17%	17%	70bps	60bps
Contribution profit [2]	**79.1**	**77.2**	**42.6**	**+2%**	**+86%**
Contribution profit margin	23%	23%	21%	(10)bps	160bps
Advertising costs	(34.1)	(42.3)	(19.8)	(19)%	+72%
% of total sales	10%	12%	10%	(270)bps	Flat to FY20
General and administrative costs[1]	(43.0)	(36.4)	(25.2)	+18%	+71%
% of total sales	12%	11%	12%	160bps	(10)bps
Adjusted EBIT [2]	**2.0**	**(1.5)**	**(2.4)**	**+233%**	**+183%**
Finance income/(costs)	1.0	1.0	(0.5)	Flat to FY21	N/A
Adjusted profit/(loss) before tax [2]	**3.0**	**(0.5)**	**(2.9)**	**N/A**	**N/A**
Adjusted items	(0.1)	(10.2)	(2.5)	N/A	N/A
Profit/(loss) before tax [2]	**2.9**	**(10.7)**	**(5.4)**	**N/A**	**N/A**

1 General and administrative costs reported here are as per the income statement excluding £(1.3) million of acquisition related amortisation costs, £1.1 million of fair value adjustments relating to open FX contracts and £0.1 million of plc foreign exchange revaluations General and administrative costs reported here include £3.0 million of Marketing R&D and £1.1 million of share-based compensation.
2.This is an alternative performance measure (see definitions).

We invested £41.3 million in acquiring New Customers in FY22 (FY21: £50.0 million, FY20: £23.5 million), lower than in FY21, when we increased investment spending to capture the

decrease in acquisition costs during COVID-19 lockdowns. FY22 Investment in New Customers was 76% higher than FY20.

This year's investment delivered a 5-Year Forecast Payback of 1.5x (FY21: 2.6x, original forecast 3.0x), reflecting both the effects of easing lockdowns in our markets and a challenging consumer environment, and higher performance marketing and logistics and transportation costs.

Adjusted EBIT was £2.0 million (FY21: £(1.5) million), driven by strong Repeat Customer sales and expense control.

Solid FY22 performance

The Group delivered total sales of £350.3 million, an increase of 5% over FY21 on a constant currency basis (+3% on a reported basis). This year-on-year increase was driven by strong retention and demand from existing members, as Repeat Customer sales increased 13% on a constant currency basis to £315.1 million. This was partially offset by an expected decrease in New Customer sales of 38% on a constant currency basis compared to the high-volume environment seen during the height of the pandemic in FY21. On a two-year stacked basis, Group sales increased 78% over FY20 on a constant currency basis (+73% on a reported basis).

Gross profit was £141.7 million for the full financial year, with a gross profit margin of 40%, a 60 basis point increase over the prior year, driven by a higher mix of Repeat versus New Customer sales in the current year compared to the prior year and improvement in Australian gross margins.

Fulfilment costs were £62.6 million for FY22, representing 18% of total sales, a 70 basis point increase over the prior year. This increase was primarily driven by increased logistics and transportation costs. During the year, we implemented automation in our UK distribution centre and remodelled our US distribution network. The latter resulted in additional cost of approximately $1.5 million to transport inventory from our legacy Napa warehouse to four warehouses that are closer to both our distribution centres and our customers.

Contribution profit was £79.1 million for the full financial year, with a Contribution profit margin of 23%. This is approximately flat to FY21, as fulfilment cost headwinds were offset by a higher mix of Repeat versus New Customer sales in the current year compared to the prior year. Where possible, we have sought to mitigate or absorb cost pressures through efficiencies from scale and cost savings initiatives.

Advertising costs were £34.1 million in FY22, representing 10% of total sales, a 270 basis point decrease over the prior year. Advertising costs predominantly relate to the acquisition of New Customers. This spend was lower than initially planned as we responded to the lower 5-Year Forecast Payback of customer cohorts.

Total general and administrative costs in FY22 were £43.0 million, representing 12% of total sales, a 160 basis point increase over the prior year primarily driven by a step up in technology-related costs to improve the customer experience and to support the significant growth in the business over the past two years, as well as anticipated future growth. Total general and administrative costs as a percent of sales was flat to FY20. We invested £3.0 million in Marketing R&D primarily related to testing opportunities to increase the awareness, quality perception and trust in our brand.

Alternative performance measures (see definitions)	FY22 £ million	FY21 £ million	YoY var
New Customer sales[1]	34.0	56.4	(40)%

New Customer Contribution loss[2]	(7.2)	(7.7)	(6)%
Advertising costs	(34.1)	(42.3)	(19)%
Investment in New Customers	(41.3)	(50.0)	(17)%

Repeat Customer sales[1]	315.1	283.9	+11%
Constant currency growth			+13%
Repeat Customer Contribution profit[2]	86.2	84.9	+2%
Repeat Customer Contribution margin	27.4%	29.9%	(250)bps

Key performance indicators (KPIs)			
Repeat Customer sales retention	80%	88%	(800)bps
Active Angels	964k	886k	+9%
5-Year Forecast Payback	1.5x	2.6x	(1.1)x
Year 1 Payback	68%	82%	(1,400)bps
Standstill EBIT	21.2	39.3	(18.1)

1 Total sales = New sales + Repeat sales + other revenue of £1.2m (FY21: nil) relating to the non core disposal of wine volumes to maintain optimal inventory.
2 Total Contribution profit = New Customer Contribution loss + Repeat Customer Contribution profit + other contribution of £0.1 million (FY21: nil) relating to the non core disposal of wine volumes to maintain optimal inventory.

Adjusted EBIT was £2.0 million (FY21: £(1.5) million loss), reflecting Repeat Customer Contribution profit of £86.2 million and other contribution of £0.1 million, less Investment in New Customers of £41.3 million and general and administrative costs of £43.0 million.

The statutory profit before tax of £2.9 million (FY21: £(10.7) million loss) was driven by:

- Adjusted trading performance as set out above, plus net finance income
- Fair value adjustments to open foreign exchange contracts and plc foreign currency balances; and
- The amortisation of acquired intangible assets

New and Repeat Customer breakdown

In FY21 we saw extraordinary circumstances driven by lockdown restrictions related to the pandemic, which drove lower acquisition costs in FY21 as well as a spike in customer demand and higher order frequency as people remained at home at levels never seen before. Due to this dynamic, year-over-year comparisons for FY22 relative to FY21 reflect normalisation of customer behaviours coming out of the height of the pandemic. Overall the business has grown substantially from pre-Covid levels and we continued to grow the business in FY22.

New Customers

Investment in New Customers was £41.3 million in FY22 compared to £50.0 million in FY21. Our FY22 investment spend reflects New Customer Contribution loss of £7.2 million and advertising costs of £34.1 million. This compares to New Customer Contribution loss of £7.7

million and advertising costs of £42.3 million in FY21. In FY22, we decreased our advertising spend to account for the lower payback of New Customer cohorts.

Our 5-Year Forecast Payback was 1.5x in FY22, below our prior year 5-Year Forecast Payback of 2.6x, primarily driven by changes in the consumer environment as well as the inflationary pressures noted.

We utilise a number of diverse marketing channels, which provides us with flexibility in adjusting channel priorities based on market conditions and shifts in consumer behaviour. Our offline voucher channel remains a strong channel, with over 800 partners globally. Our online channels, including social, search and affiliates, represent growth opportunities as we optimise our unit economics for these channels, including strategies to improve the conversion of customers from website traffic to first purchase, as well as the early life retention of customers. We expect to continue to invest in Marketing R&D, including testing to understand the impact of brand investments; we expect that brand investments will increase the awareness, quality perception and trust in the brand, thereby enhancing the effectiveness and efficiency of performance marketing investments.

Repeat Customers

Repeat Customer sales were £315.1 million, a 13% increase on a constant currency basis over the prior year (+11% on a reported basis). We continue to enhance our customer proposition with a broader range, and by adding more talented winemakers who are making beautiful wines.

We saw an increase in our subscription offers Never Miss Out to 366,000 annual subscriptions (FY21: 295,000) and Wine Genie to 18,000 subscriptions (FY21: 17,000), which continue to add further value for our Angels. On average, Never Miss Out customers have 1.9 active subscriptions. These subscriptions increase customer lifetime value, and we continue to review further enhancements to these and to roll them out at greater scale.

Repeat Customer sales retention was 80% in FY22 (FY21: 88%), a decrease over the prior year reflecting the strong comparative to the higher order frequency and lower cancellations experienced during COVID-19 lockdowns last year.

Repeat Customer Contribution profit was £86.2 million in FY22, a £1.3 million increase over the prior year. Repeat Customer Contribution margin was 27%, a 250 basis point decrease compared to the prior year driven by higher storage, transportation and logistics costs in the US and the UK, as well as non-recurring costs for the US distribution network remodel, offset by a higher gross margin in Australia.

US segment

£ million	FY22	FY21	YoY %
Total sales[1]	157.4	161.7	(3)%
Constant currency growth			+2%
Repeat Customer sales	138.7	129.8	+7%
Constant currency growth			+11%
Investment in New Customers	(23.2)	(33.4)	(31)%
Repeat Customer Contribution profit	46.6	47.9	(3)%

Repeat Customer Contribution margin	34%	37%	(330)bps
Adjusted EBIT	8.6	2.0	+330%

1 Total sales = New sales + Repeat sales + other revenue.

Total US sales were £157.4 million in FY22, a 2% increase over the prior year on a constant currency basis (3% decrease on a reported basis). The year-over-year increase on a constant currency basis was driven by an increase in Repeat Customer sales of 11% on a constant currency basis (+7% increase on a reported basis), partially offset by a decrease in New Customer sales as a result of lower investment spend on New Customers during the year.

US Adjusted EBIT was £8.6 million, reflecting a Repeat Customer Contribution profit of £46.6 million and other contribution of £0.1 million, less Investment in New Customers of £23.2 million and general and administrative costs of £14.9 million.

US Repeat Customer Contribution margin was 34%, the highest in the Group, driven by the three-tier distribution model in the US market, which drives up prices. The margin decreased 330 basis points over the prior year, driven by higher storage, transportation and logistics costs, as well as the US distribution network remodel.

Foreign exchange rates offset reported growth in the US segment, as the average monthly rate for FY22 was USD/GBP 1.368, a 5% increase over FY21.

UK segment

£ million	FY22	FY21	YoY %
Total sales	147.0	133.1	+10%
Repeat Customer sales	135.6	115.8	+17%
Investment in New Customers	(13.5)	(11.1)	+22%
Repeat Customer Contribution profit	28.2	27.3	+3%
Repeat Customer Contribution margin	21%	24%	(280)bps
Adjusted EBIT	8.1	10.9	(26)%

Total UK sales were £147.0 million in FY22, representing growth of 10% compared to FY21 driven by an increase in Repeat Customer sales of 17%, partially offset by a decrease in New Customer sales.

UK Adjusted EBIT in FY22 was £8.1 million, reflecting Repeat Customer Contribution profit of £28.2 million less Investment in New Customers of £13.5 million and general and administrative costs of £6.6 million.

UK Repeat Customer Contribution margin was 21%, a 280 basis point decrease over the prior year driven by higher transportation and logistics costs.

The UK segment is our most mature business and, therefore, has the highest sales retention among the Group.

Australia segment

£ million	FY22	FY21	YoY %
Total sales	45.9	45.5	+1%
Constant currency growth			+2%
Repeat Customer sales	40.8	38.3	+7%
Constant currency growth			8%
Investment in New Customers	(4.6)	(5.5)	(16)%
Repeat Customer Contribution profit	11.3	9.7	+16%
Repeat Customer Contribution margin	28%	25%	+240bps
Adjusted EBIT	2.9	0.9	+222%

Total Australia sales were £45.9 million in FY22, representing growth of 2% over FY21 on a constant currency basis (1% increase on a reported basis), also driven by an increase in Repeat Customer sales, partially offset by a decrease in New Customer sales.

Australia Adjusted EBIT was £2.9 million in FY22 reflecting Repeat Customer Contribution profit of £11.3 million less Investment in New Customers of £4.6 million and general and administrative costs of £3.8 million.

Australia Repeat Customer Contribution margin was 28%, a 240 basis point increase over the prior year, driven by gross margin improvements. The improvements in gross margin were driven by price increases across the range as well as through rationalisation of the wine in the portfolio.

Foreign exchange rates did not have a material impact in the Australia segment, as the average monthly rate for FY22 was AUD/GBP 1.850, a modest 1% increase over FY21.

Standstill EBIT

Standstill EBIT, the Adjusted EBIT which we would report if we had invested in New Customers to replenish the current customer base only, rather than for both replenishment and growth, was £21.2 million in FY22 (FY21: £39.3 million). This metric can help investors understand the steady state EBIT that the business would generate if we chose not to invest for growth and is indicative of the cash generation profile of the business. Additionally, this metric is an estimate based on KPIs that drive long-term value. As a result of the pandemic, some of these KPIs have deviated from their long-term averages. As a result, we have provided a pro-forma Standstill EBIT which uses three-year trailing averages for these KPIs.

Financing costs and taxes

Net finance income was £1.0 million in FY22, similar to the prior year. This income was derived principally from the non-cash amortised interest income on the loan note created as part of the disposal of the Majestic business in 2019 and from cash held on deposit with a range of banks.

Tax charges totalled £0.5 million in FY22, reflecting an effective tax rate of 17.1%. This is made up of a £2.0 million current tax charge, made up almost exclusively by corporate tax borne in our US and Australian markets, offset by a deferred tax credit largely driven by the

recognition of a deferred tax asset of previous capital losses expected to crystallise in the next financial year.

Cash and cash flow drivers

Cash at 28 March 2022 totalled £39.8 million compared to £85.1 million at the end of FY21. We employ a balanced capital allocation strategy, prioritised by maintaining sufficient cash and liquidity to operate the business, given the seasonality in our inventory purchasing cycle and our sales. We balance this with investing in strategic growth, where we see compelling opportunities at attractive returns in excess of our weighted average cost of capital (WACC) and internal hurdle rate. We would expect to return any excess capital beyond those priorities to shareholders.

Growth investments are geared towards customer acquisition, our customer proposition and our go-to-market strategy, as well as investing in inventory to increase product availability and deliver on our growth plans and key strategic objectives. Given the investments we plan to make in the growth opportunities we see before us in the coming year, we are not anticipating any distributions or returns of excess capital to shareholders at this time.

Given the challenges presented by supply chain disruptions combined with the higher demand seen in FY21, we invested £61.2 million of cash in FY22 to grow our inventory in order to maintain product availability and ensure an excellent customer experience for our Angels. We will continue to run the business at a higher inventory level as needed to support our anticipated growth, while carefully managing levels to demand.

On 31 March 2022, we raised a $60 million credit facility with a syndicate of banks. Under the facility we may borrow against our US inventory. Borrowings bear interest between Secured Overnight Financing Rate (SOFR) +325bps and +375bps. On completion of the facility, the Group drew, and continues to draw, $21 million consistent with the facility cash deposit covenant.

In FY22, we utilised £43.6 million of free cash flow, primarily driven by an increase in inventory holdings of £61.2 million, offset by cash inflow of £3.6 million and £12.9 million from increases in deferred income and trade payables, respectively.

Outlook

There are a few themes that are relevant to our FY23 guidance. First, we have seen and continue to expect a measure of enduring inflationary pressure in all markets. Second, consumer sentiment has been impacted by inflation and the geopolitical environment, which we expect to continue to some measure. And finally, as we shift our UK business toward a more premium offering, we expect to invest approximately £5 million less in Investment in New Customers with relatively flat year-on-year sales in that segment as we reposition the customer base toward higher quality revenue.

Given the current macroeconomic environment, which has greater uncertainty, we expect to manage to on or around a break-even adjusted EBITDA (excluding share-based compensation and non-cash charges). Additionally, given this uncertainty, we provide the following guidance and will update as the year progresses:

- Total Group sales expected to be in the range of £345 million to £375 million (-4% to +4% on a constant currency basis). This sales guidance is based on a USD/GBP exchange rate of 1.299. Furthermore, we expect year-on-year sales growth to accelerate throughout the year.[1]
- Investment in New Customer acquisition expected to be in the range of £30 million to £40 million, as we maintain our disciplined approach to investment spending.

- Repeat Customer Contribution profit is expected to be in the range of £83 million to £93 million.
- General and administrative costs are expected to be in the range of £45 million to £48 million. Additionally we expect to invest £5 million in Marketing R&D and incur £4 million of share-based compensation.

1 Please note that FY23 is a 53-week year (occurs every seven years given our 4-4-5 retail fiscal calendar), which adds approximately £5 million of sales or two percentage points of growth

Going concern

In assessing the appropriateness of the going concern assumption, the Board has considered (i) the cash requirements of the business to pursue its intended strategy, (ii) the funding available to the Group from existing cash reserves and from our Asset Backed Lending facility (ABL) and (iii) potential variations in the cash requirements of the Group taking into account severe yet plausible downside scenarios that appropriately reflect the current uncertain macroeconomic outlook.

The Group entered into an Asset Backed Lending facility on 31 March 2022 which provides up to $60 million of additional borrowing secured against the stock holding of the US business.

Management has prepared cash flow forecasts extending for 12 months from the date of this report to assess the base case liquidity of the Group. Under this base case scenario the Group has sufficient liquidity over this time period, although it is the intention to draw a minimum amount to meet conditions of the facility itself around a minimum cash holding.

Under a downside scenario where New Customer investment declines by 10% and therefore the Group acquires fewer New Customers, the Group would retain liquidity and again would not require funding from the ABL. It should be noted that under this scenario cash reserves would be reduced increasingly throughout the evaluation period. However, management has multiple available levers to improve cash generation should evidence of this downside scenario become apparent.

The Board has also reviewed the potential impact of other reasonably plausible downside scenarios. In particular, should Repeat sales show a progressive deterioration versus our expectations (-5% in Q2, -7.5% in Q3, -10% in Q4 of FY23 and -10% in Q1 of FY24), cash reserves would be further reduced. If no management actions were taken, additional sources of funding would be required in Q4 of FY23 and Q1 of FY24. However, management has multiple available levers to improve cash generation should evidence of this downside scenario become apparent, as discussed further below.

The ABL is subject to three covenants: a current ratio test, minimum cash held at a bank within the syndicate, and a minimum quarterly Repeat Customer Contribution profit test. The Repeat Customer Contribution profit covenant is with reference to an absolute level, rather than a ratio. Consequently, it is most sensitive to macroeconomic factors and, under a downside scenario, there is a risk that the Company could breach this covenant, with headroom versus the covenant most limited in Q1, Q2 and Q4 of FY23.

Management has assessed covenant compliance over the next 12 months based on a detailed forecast model that projects an income statement, balance sheet, and cash flow statement based on key drivers of the business including, *inter alia*, assumptions on New Customers, customer retention/attrition by tenure, order frequency, average order value, gross margin and fulfilment costs per order. Sensitivity analysis was also performed on this base case forecast. Under the base case, the forecast model projects that all covenants will be met over the next 12 months. A downside scenario resulting in a 7.5% to 20% sensitivity against the base case forecast for Repeat Customer sales could result in a breach of this covenant. When taking into account actual trading results to date which are below forecast, a downside scenario of

3.7% against forecast would result in a breach of this covenant at June 2022 and as a result of the sensitivity in the downside scenario, management have identified a material uncertainty on meeting this covenant. Under certain downside scenarios there is uncertainty over covenant compliance in future quarters. In the case of a breach of this covenant, management would approach the bank and request a waiver for this covenant breach. However, the Board cannot predict with certainty how the banks would respond.

Even under a severe downside scenario, management have identified multiple additional levers that would conserve cash without access to the ABL. These levers include the deferral or reduction of incoming inventory purchases, the disposal of unbottled wine on the bulk wine market, the reduction of capital expenditure, the renegotiation of supplier terms, the reduction of discretionary marketing investment and reductions of general and administrative expense. It is the view of the Board that, together, these levers offer in excess of £30 million of mitigation of downside risk, which is set against a maximum cash requirement of up to £10 million under a severe downside scenario.

On this basis the Board believes it is appropriate to prepare the financial statements on a going concern basis. However, this material uncertainty may cast significant doubt on the Group's ability to continue as a going concern and therefore to realise its assets and discharge its liabilities in the normal course of business.

Shawn Tabak
Chief Financial Officer

Group income statement

For the year ended 28 March 2022

Continuing operations	Note	**Year ended 28 March 2022**	Year ended 29 March 2021
		£'000	£'000
Revenue		**350,263**	340,226
Cost of sales		(208,542)	(204,732)
Gross profit		**141,721**	135,494
Fulfilment costs		(62,601)	(58,294)
Advertising costs		(34,131)	(42,334)
General and administrative costs		(43,085)	(42,675)
Fair value loss arising on deferred contingent consideration net of settlement	5	-	(3,868)
Operating profit/(loss)		**1,904**	(11,677)
Finance costs		(111)	(116)
Finance income		1,080	1,118
Profit/(loss) before tax		**2,873**	(10,675)

Analysed as:			
Adjusted profit/(loss) before tax		**2,964**	(514)
Adjusted items:	5		
- Non-cash charges relating to acquisitions		(1,321)	(3,646)
- Other adjusted items		1,230	(6,515)
Profit/(loss) before tax		**2,873**	(10,675)
Tax	6	**(490)**	635
Profit/(loss) for the period		**2,383**	(10,040)
Earnings/(loss) per share	7		
Basic		**3.3p**	(13.8p)
Diluted		**3.2p**	(13.8p)

Balance sheet

As at 28 March 2022

	28 March 2022	29 March 2021
	£'000	£'000
Non-current assets		
Goodwill and intangible fixed assets	**33,516**	33,982
Property, plant and equipment	**2,544**	1,452
Right-of-use assets	**3,370**	2,780
Investment property	**-**	855
Deferred tax assets	**5,402**	3,993
Other receivables	**10,114**	9,520
	54,946	52,582
Current assets		
Inventories	**142,444**	76,130
Trade and other receivables	**9,161**	7,168
Financial instruments at fair value	**324**	41
Cash and cash equivalents	**39,846**	85,148
	191,775	168,487
Assets classified as held for sale	**810**	-
	192,585	168,487
Total assets	**247,531**	221,069

Current liabilities		
Trade and other payables	**(54,621)**	(40,757)
Deferred Angel and other income	**(76,003)**	(69,902)
Lease liabilities	**(991)**	(645)
Provisions	**(2,011)**	(1,570)
Bond financing	**(35)**	(30)
Financial instruments at fair value	**(476)**	(1,405)
	(134,137)	(114,309)
Non-current liabilities		
Provisions	**(122)**	(393)
Lease liabilities	**(2,576)**	(2,231)
Deferred tax liabilities	**(813)**	(771)
	(3,511)	(3,395)
Total liabilities	**(137,648)**	(117,704)
Net assets	**109,883**	103,365
Equity		
Share capital	**5,508**	5,487
Share premium	**21,162**	21,162
Capital redemption reserve	**363**	363
Currency translation reserve	**3,183**	99
Retained earnings	**79,667**	76,254
Total equity	**109,883**	103,365

Group cash flow statement

For the year ended 28 March 2022

	Note	**Year ended 28 March 2022** **£'000**	Year ended 29 March 2021 £'000
Cash flows from operating activities			
Cash (used in)/generated by operations	8	**(40,929)**	34,207
UK income tax received		**-**	274
Overseas income tax paid		**(2,189)**	(880)
Net cash (used in)/generated by operating activities		**(43,118)**	33,601

Investing activities			
Interest received, including interest received on the vendor loan note		**486**	559
Purchase of property, plant and equipment		**(1,681)**	(845)
Purchase of intangible fixed assets		**(253)**	(1,824)
Proceeds on disposal of property, plant and equipment		**7**	-
Proceeds received on settlement of deferred contingent consideration		**-**	175
Proceeds from sale of asset held for resale		**-**	953
Net cash used in investing activities		**(1,441)**	(982)
Financing activities			
Interest paid (including lease interest)		**(111)**	(116)
Repayments of principal under lease liabilities		**(845)**	(904)
Movement in customer funded bonds		**5**	(54)
Net cash used in financing activities		**(951)**	(1,074)
Net (decrease)/increase in cash		**(45,510)**	31,545
Cash and cash equivalents at the beginning of the year		**85,148**	54,736
Effect of foreign exchange rate changes		**208**	(1,133)
Cash and cash equivalents at the end of the year	8	**39,846**	85,148

Notes to the financial statements

1. General Information

Naked Wines plc (the Company) is a public limited company and is incorporated in the United Kingdom under the Companies Act 2006 and is registered in England and Wales. The Company is the ultimate controlling party of the Naked Group and its ordinary shares are traded on the Alternative Investment Market (AIM).

The Company's registered address is The Union Building, 51-59 Rose Lane, Norwich, NR1 1BY. The Group's principal activity is the direct to consumer retailing of wine.

2. Basis of accounting

The financial information set out above does not constitute statutory accounts within the meaning of section 435(1) and (2) of the Companies Act 2006 nor contain sufficient information to comply with the disclosure requirements of International Financial Standards (IFRS) but are derived from those statements.

The consolidated financial statements comprise the financial statements of the Group as at 28 March 2022 and are presented in UK Sterling and all values are rounded to the nearest thousand (£'000), except when otherwise indicated.

The auditors have reported on the underlying accounts from which this financial information has been drawn and their report is unqualified and did not contain any statements under

section 498 (2) or (3) of the Companies Act 2006 but did include a section highlighting a material uncertainty that may cast significant doubt on the Group and Company's ability to continue as a going concern. Further detail is provided within the Going Concern section of this announcement.

The financial statements of Naked Wines plc for the year ended 28 March 2022 were authorised for issue by the Board of Directors on 23 June 2022 and the balance sheet was signed on behalf of the Board by Shawn Tabak, Chief Financial Officer.

The Group's financial reporting year represents the 52 weeks to 28 March 2022 and the prior financial year, 52 weeks to 29 March 2021.

3. Going concern

In assessing the appropriateness of the going concern assumption, the Board has considered (i) the cash requirements of the business to pursue its intended strategy, (ii) the funding available to the Group from existing cash reserves and from our Asset Backed Lending facility (ABL) and (iii) potential variations in the cash requirements of the Group taking into account severe yet plausible downside scenarios that appropriately reflect the current uncertain macroeconomic outlook.

The Group entered into an Asset Backed Lending facility on 31 March 2022 which provides up to $60 million of additional borrowing secured against the stock holding of the US business.

Management has prepared cash flow forecasts extending for 12 months from the date of this report to assess the base case liquidity of the Group. Under this base case scenario the Group has sufficient liquidity over this time period, although it is the intention to draw a minimum amount to meet conditions of the facility itself around a minimum cash holding.

Under a downside scenario where New Customer investment declines by 10% and therefore the Group acquires fewer New Customers, the Group would retain liquidity and again would not require funding from the ABL. It should be noted that under this scenario cash reserves would be reduced increasingly throughout the evaluation period. However, management has multiple available levers to improve cash generation should evidence of this downside scenario become apparent.

The Board has also reviewed the potential impact of other reasonably plausible downside scenarios. In particular, should Repeat sales show a progressive deterioration versus our expectations (-5% in Q2, -7.5% in Q3, -10% in Q4 of FY23 and -10% in Q1 of FY24), cash reserves would be further reduced. If no management actions were taken, additional sources of funding would be required in Q4 of FY23 and Q1 of FY24. However, management has multiple available levers to improve cash generation should evidence of this downside scenario become apparent, as discussed further below.

The ABL is subject to three covenants: a current ratio test, minimum cash held at a bank within the syndicate, and a minimum quarterly Repeat Customer Contribution profit test. The Repeat Customer Contribution profit covenant is with reference to an absolute level, rather than a ratio. Consequently, it is most sensitive to macroeconomic factors and, under a downside scenario, there is a risk that the Company could breach this covenant, with headroom versus the covenant most limited in Q1, Q2 and Q4 of FY23.

Management has assessed covenant compliance over the next 12 months based on a detailed forecast model that projects an income statement, balance sheet, and cash flow statement based on key drivers of the business including, *inter alia*, assumptions on New Customers, customer retention/attrition by tenure, order frequency, average order value, gross margin and fulfilment costs per order. Sensitivity analysis was also performed on this base case forecast. Under the base case, the forecast model projects that all covenants will be met over the next 12 months. A downside scenario resulting in a 7.5% to 20% sensitivity against the base case forecast for Repeat Customer sales could result in a breach of this covenant. When taking

into account actual trading results to date which are below forecast, a downside scenario of 3.7% against forecast would result in a breach of this covenant at June 2022 and as a result of the sensitivity in the downside scenario, management have identified a material uncertainty on meeting this covenant. Under certain downside scenarios there is uncertainty over covenant compliance in future quarters. In the case of a breach of this covenant, management would approach the bank and request a waiver for this covenant breach. However, the Board cannot predict with certainty how the banks would respond.

Even under a severe downside scenario, management have identified multiple additional levers that would conserve cash without access to the ABL. These levers include the deferral or reduction of incoming inventory purchases, the disposal of unbottled wine on the bulk wine market, the reduction of capital expenditure, the renegotiation of supplier terms, the reduction of discretionary marketing investment and reductions of general and administrative expense. It is the view of the Board that, together, these levers offer in excess of £30 million of mitigation of downside risk, which is set against a maximum cash requirement of up to £10 million under a severe downside scenario.

On this basis the Board believes it is appropriate to prepare the financial statements on a going concern basis. However, this material uncertainty may cast significant doubt on the Group's ability to continue as a going concern and therefore to realise its assets and discharge its liabilities in the normal course of business.

4. Segmental reporting

IFRS 8 requires operating segments to be determined based on the Group's internal reporting to the Chief Operating Decision Maker (CODM). The Board has determined that the Executive Directors of the Company are the CODM of the business. This is on the basis that they have primary responsibility for the allocation of resources between segments and the assessment of performance of the segments. In line with the information presented to the Executive Directors of the Company, the Group presents its segmental analysis based on the three geographic locations in which the Group operates.

Performance of these operating segments is assessed on revenue, adjusted EBIT (being operating profit excluding any adjusted items) and adjusted PBT (being profit before tax excluding any adjusted items), as well as analysing the business between New Customer and Repeat Customer lines of business.

These are the financial performance measures that are reported to the CODM, along with other operational performance measures, and are considered to be useful measures of the underlying trading performance of the segments. Adjusted items are not allocated to the operating segments as this reflects how they are reported to the CODM.

The table below sets out the basis on which the performance of the business is presented to the CODM. The CODM considers that, as a single route to market and solely consumer-facing business in three geographically and economically diverse locations, the business comprises three operating segments. The Group reports revenue from external customers as a single product group, this being wine and associated beverages.

Costs relating to global Group functions are not allocated to the operating segments for the purposes of assessing segmental performance and consequently global costs are presented separately. This is consistent with the presentation of those functions to the CODM.

Revenues are attributed to the countries from which they are earned. The Group is not reliant on a major customer or group of customers.

Year ended 28 March 2022	**Naked Wines USA**	**Naked Wines UK**	**Naked Wines Australia**	**Unallocated**	**Total**

	£'000	£'000	£'000	£'000	£'000
Revenue					
New Customer sales	17,556	11,342	5,137	-	**34,035**
Repeat Customer sales	138,665	135,617	40,777	-	**315,059**
Other revenue	1,169	-	-	-	**1,169**
	157,390	**146,959**	**45,914**	**-**	**350,263**
New Customer Contribution loss	(2,097)	(4,135)	(940)	-	**(7,172)**
Advertising costs	(21,128)	(9,360)	(3,643)	-	**(34,131)**
Investment in New Customers	(23,225)	(13,495)	(4,583)	-	**(41,303)**
Repeat Customer Contribution profit	46,648	28,225	11,342	-	**86,215**
Other contribution	77	-	-	-	**77**
	23,500	**14,730**	**6,759**	**-**	**44,989**
General and administrative costs[1]	(14,939)	(6,614)	(3,879)	(17,562)	**(42,994)**
Adjusted EBIT	**8,561**	**8,116**	**2,880**	**(17,562)**	**1,995**
Finance costs	(91)	(9)	(11)	-	**(111)**
Finance income	-	1	-	1,079	**1,080**
Adjusted profit/(loss) before tax	**8,470**	**8,108**	**2,869**	**(16,483)**	**2,964**
Adjusted items:					
Non-cash items relating to acquisitions	-	-	-	**(1,321)**	**(1,321)**
Other adjusted items	-	-	-	**1,230**	**1,230**
Profit/(loss) before tax	**8,470**	**8,108**	**2,869**	**(16,574)**	**2,873**
Depreciation	1,113	264	230	50	**1,657**
Amortisation	1	-	-	1,900	**1,901**
Total assets	122,278	41,622	24,912	58,719	**247,531**
Total liabilities	63,495	45,203	20,126	8,824	**137,648**

1. General and administrative costs – Per income statement excluding £1,321,000 of acquisition related amortisation costs, £1,091,000 of fair value adjustments relating to open foreign exchange contracts and £139,000 of PLC company foreign exchange revaluations.

Year ended 28 March 2022	**USA**	**UK**	**Australia**	**Total**

	£'000	£'000	£'000	£'000
Geographical analysis				
Revenue	157,390	146,959	45,914	**350,263**
Non-current assets excluding deferred current assets	4,919	44,261	364	**49,544**

Year ended 29 March 2021	Naked Wines USA	Naked Wines UK	Naked Wines Australia	Unallocated	Total
	£'000	£'000	£'000	£'000	£'000
Revenue					
New Customer sales	31,908	17,303	7,160	-	56,371
Repeat Customer sales	129,797	115,755	38,303	-	283,855
	161,705	133,058	45,463	-	340,226
New Customer Contribution loss	(3,275)	(3,585)	(852)	-	(7,712)
Advertising costs	(30,163)	(7,529)	(4,642)	-	(42,334)
Investment in New Customers	(33,438)	(11,114)	(5,494)	-	(50,046)
Repeat Customer Contribution profit	47,870	27,301	9,741	-	84,912
	14,432	16,187	4,247	-	34,866
General and administrative costs[1]	(12,445)	(5,279)	(3,303)	(15,355)	(36,382)
Adjusted EBIT	1,987	10,908	944	(15,355)	(1,516)
Finance costs	(85)	(14)	(17)	-	(116)
Finance income	10	-	-	1,108	1,118
Adjusted profit/(loss) before tax	1,912	10,894	927	(14,247)	(514)
Adjusted items:					
Non-cash items relating to acquisitions	-	-	-	(3,646)	(3,646)
Other adjusted items	-	-	-	(6,515)	(6,515)
Profit/(loss) before tax	1,912	10,894	927	(24,408)	(10,675)
Depreciation	859	315	227	49	1,450
Amortisation	1	-	-	3,837	3,838
Total assets	64,689	25,699	20,386	110,295	221,069
Total liabilities	55,283	39,394	16,408	6,619	117,704

Year ended 29 March 2021	**USA**	**UK**	**Australia**	**Total**

	£'000	£'000	£'000	£'000
Geographical analysis				
Revenue	161,705	133,058	45,463	340,226
Non-current assets excluding deferred current assets	3,516	44,597	476	48,589

1. General and administrative costs – Per income statement excluding £3,646,000 of acquisition related amortisation costs, £1,966,000 of fair value adjustments relating to open foreign exchange contracts and £681,000 of PLC company foreign exchange revaluations.

5 Adjusted items

The Directors believe that adjusted profit/(loss) before tax provides additional useful information for shareholders on trends and performance. These measures are used for performance analysis. Adjusted profit is not defined by IFRS and therefore may not be directly comparable with other companies' adjusted profit measures. It is not intended to be a substitute for, or superior to, IFRS measurements of profit.

In the year, the adjustments made to reported profit before tax are:

	Year ended 28 March 2022	Year ended 29 March 2021
	£'000	£'000
Non-cash charges relating to acquisitions		
Amortisation of acquired intangibles	**(1,321)**	(3,646)
	(1,321)	(3,646)
Other adjusted items		
Fair value loss arising on deferred contingent consideration net of settlement	**-**	(3,868)
Fair value movement through the income statement on foreign exchange contracts and associated unrealised foreign currency inventory	**1,091**	(1,966)
Foreign exchange movements on plc company currency bank balances	**139**	(681)
	1,230	(6,515)
Total adjusted items	**(91)**	(10,161)

Amortisation of acquired intangibles
These items reflect costs of customer acquisition from prior to the purchase of the Naked Wines business. In order to reflect the cost of current New Customer acquisition in its adjusted profit before tax, the Group includes the expenses of all ongoing customer acquisitions in its adjusted profit measures but removes the amortisation cost of those customers acquired before acquisition by Naked Wines plc.

Fair value loss arising on deferred contingent consideration net of settlement
During the year ended 29 March 2021, the Directors were approached by CF Bacchus Holdco Limited, the holder of the deferred contingent consideration obligation issued as part of the disposal of the Majestic business. In the light of restrictions on travel and as a result of the new duty-free allowances which came into force on 1 January 2021, the Directors accepted an offer of £175,000 in full settlement of the Group's deferred contingent consideration in respect of the disposal of Majestic's French retail business. This settlement was received on

19 March 2021. The deferred contingent consideration was valued in the books at £4,043,000 at 30 March 2020, and after proceeds of £175,000 were received, a loss of £3,868,000 was taken to the income statement and disclosed in adjusted items.

Fair value movement on foreign exchange contracts and associated unrealised foreign currency inventory

We commit in advance to buying foreign currency to purchase wine in order to mitigate exchange rate fluctuations. International accounting standards require us to mark the value of these contracts to market at year end. As this may fluctuate materially we adjust this and associated foreign currency inventory revaluation out as to better reflect trading profitability.

Foreign exchange movements on funding currency bank accounts

The Group holds net cash on its balance sheet and this includes sums of foreign currency which it will deploy to fund its US and Australian businesses. The revaluation of foreign currency balances held in the Group are reported as adjusted items so as not to distort the picture of the underlying business cost base.

6 Tax

(a) Tax charge

	Year ended 28 March 2022	Year ended 29 March 2021
	£'000	£'000
Current income tax		
UK income tax	**4**	1
Overseas income tax	**(2,011)**	(547)
Adjustment in respect of prior periods	**27**	176
Current income tax charge	**(1,980)**	(370)
Deferred tax		
Origination and reversal of temporary differences	**1,077**	1,464
Adjustment in respect of prior periods	**64**	(459)
Effect of change in tax rate on prior period balances	**349**	-
Total deferred tax credit	**1,490**	1,005
Total income tax (charge)/credit for the year	**(490)**	635

(b) Tax reconciliation

The tax charge/(credit) for the year differs from the standard rate of corporation tax in the UK of 19% (2021: 19%). The reasons for this are detailed below:

	Year ended 28 March 2022	Year ended 29 March 2021
	£'000	£'000
Profit/(loss) before tax	**2,873**	(10,675)

Tax (charge)/credit at the standard UK corporation tax rate of 19% (2021: 19%)	**(546)**	2,028
Adjustments in respect of prior periods	**91**	(283)
Overseas income tax at higher rates	**(44)**	(66)
Disallowable expenditure	**(485)**	(82)
Income not taxable	**12**	212
Deferred tax not previously recognised	**475**	(1,606)
Share based payments	**141**	138
Change in tax rate on prior period deferred tax balances	**(134)**	-
Foreign exchange	**-**	294
Total income tax (charge)/credit	**(490)**	635
Effective tax rate	**17.1%**	5.9%

Deferred tax balances have been calculated at the substantively enacted rate at which they are expected to reverse.

The chancellor has confirmed an increase in the corporation tax rate from 19% to 25% with effect from 1 April 2023 which received Royal Assent on 10 July 2021.

7 Earnings per share

Basic earnings per share is calculated by dividing the profit attributable to ordinary shareholders by the weighted average number of ordinary shares in issue of the Company, excluding 145,557 (2021: 146,814) shares held by the Naked Wines plc Share Incentive Plan Trust (which have been treated as dilutive share based payment awards).

The dilutive effect of share based payment awards is calculated by adjusting the weighted average number of ordinary shares in issue to assume conversion of all dilutive potential ordinary shares. All outstanding share based payment award grants have been included in the dilutive earnings per share calculation as they are potentially dilutive at the year end.

A negative diluted EPS equals a negative basic EPS as it would have an anti-dilutive effect if the dilutive shares are included in the calculation.

	Year ended 28 March 2022	Year ended 29 March 2021
Earnings/(loss) per share		
Basic earnings/(loss) per share	**3.3p**	(13.8p)
Diluted earnings/(loss) per share	**3.2p**	(13.8p)

	Year ended 28 March 2022	Year ended 29 March 2021
Weighted average number of shares in issue	**73,172,727**	72,896,800

Dilutive potential ordinary shares:		
Employee share awards	**1,803,937**	1,496,174
Weighted average number of shares for the purpose of diluted earnings per share	**74,976,664**	74,392,974
Total number of shares in issue	**73,439,132**	73,161,485

If all the Company's share schemes had vested at 100%, the Company would have 74,983,864 issued shares.

8 Notes to the cash flow statement

(a) Reconciliation of profit to cash (used in)/generated by operations

	Year ended 28 March 2022	Year ended 29 March 2021
	£'000	£'000
Cash flows from operations		
Operating profit/(loss)	**1,904**	(11,677)
Add back:		
Depreciation and amortisation	**3,558**	5,288
Loss on disposal of fixed assets	**18**	51
Fair value loss arising on deferred contingent consideration net of settlement	**-**	3,868
Fair value movement on foreign exchange contracts	**(1,212)**	1,760
Share based payment charges	**1,311**	777
Operating cash flows before movements in working capital	**5,579**	67
Increase in inventories	**(61,174)**	(8,984)
Increase in customer funds in deferred income	**3,582**	28,244
Increase in trade and other receivables	**(1,779)**	(1,445)
Decrease in trade and other payables	**12,863**	16,325
Net cash flows from operating activities	**(40,929)**	34,207

(b) Cash and cash equivalents

	28 March 2022	29 March 2021
	£'000	£'000
Cash and cash equivalents	**39,846**	85,148

(c) Analysis of movement in net cash

	29 March 2021	Cash flows	Non-cash movements	**28 March 2022**
	£'000	£'000	£'000	**£'000**
Cash and cash equivalents	**85,148**	**(45,510)**	**208**	**39,846**
Borrowings - customer bond finance	(30)	(5)	-	**(35)**
Borrowings - IFRS 16 lease liabilities	(2,876)	(845)	154	(3,567)
Gross borrowings	**(2,906)**	**(850)**	**154**	**(3,602)**
Total net cash/(borrowings)	**82,242**	**(46,360)**	**362**	**36,244**

9 Events after the balance sheet date

On 31 March 2022, the Group entered into a 36-month senior secured credit facility with Silicon Valley Bank as administrative agent and issuing lender for up to $60 million of credit based on the inventory held by Nakedwines.com Inc. The facility is secured against the assets of the Group. Interest payable on this facility is calculated on a margin above the Secured Overnight Financing Rate (SOFR) with a commitment fee on undrawn funds. As an indicative impact of its financial effect, using a representative current SOFR rate which cannot be predicted in the future and average facility margins which may not be representative of actual final applicable margins, a representative $10 million of drawdown for 12 months would amount to a total interest and commitment fee payable of approximately £0.4 million.

On 12 November 2021, the Directors received an offer for the purchase of the asset held on the Company's books as an investment property. The sale was completed and proceeds of £5,850,000 were received on 5 May 2022, with estimated costs and commissions of £200,000 and before tax.

There were no other events after the balance sheet date that had a material impact on the financial position and performance of the Group.

Definitions and Customer experience KPIs

Definitions	
Angel	A customer who deposits funds into their account each month to spend on the wines on our website.
Active Angel	An Angel that has placed an order in the last 12 months.
CAGR	Compound annual growth rate. The year-on-year growth rate required for a number of years for a value to grow from its beginning balance to its ending balance.
Company, Naked or Naked Wines	Naked Wines plc
Contribution	A profit measure between gross profit and EBIT, calculated as gross profit less the costs of fulfilling and servicing (e.g. credit card fees, delivery costs, customer facing staff costs). We often split contribution into that from new and repeat customers as they can have different levels of profitability.
DtC	Direct to consumer

Group	Naked Wines plc and its subsidiary undertakings
LTIP	Long Term Incentive Plan
Marketing R&D	Expenditure focused on researching and testing new marketing channels and creative approaches, with the aim of opening up significant new growth investment opportunities.
New Customer	A customer who, at the time of purchase, does not meet our definition of a repeat customer; for example, because they are brand new, were previously a Repeat Customer and have stopped subscribing with us at some point or cannot be identified as a Repeat Customer.
New Customer sales	Revenues derived from transactions with customers who meet our definition of a New Customer. A reconciliation of total sales to New Customer sales is shown in note 4 Segmental reporting.
Repeat Customer	A customer (Angel) who has subscribed and made their first monthly subscription payment.
Repeat Customer sales	These are the revenues derived from orders placed by customers meeting our definition of a Repeat Customer at the time of ordering. A reconciliation of total sales to Repeat Customer sales is shown in note 4 Segmental reporting.
SIP	Share Incentive Plan
Total Addressable Market (TAM)	TAM represents the available market which Naked sees as a revenue opportunity that it could serve.
Customer experience KPIs	
Product availability	% of targeted range available on websites as indicated by our inventory reporting.
Wine quality - “Buy it again” ratings	% of “Yes” scores in the last 12 months as recorded by websites/ apps
5* customer service	The number of service ratings scoring 5* (out of 5) as a % of total ratings in the last 12 months as recorded by websites/apps/telephone feedback.

Alternative performance measures (APMs) and Investment measures

Alternative performance measures	
EBIT	Operating profit as disclosed in the Group income statement.
Adjusted EBIT	Operating profit adjusted for amortisation of acquired intangibles, acquisition costs, impairment of goodwill, restructuring costs and fair value movement through the income statement on financial instruments and revaluation of funding cash balances held.
EBITDA	EBIT plus depreciation and amortisation
Adjusted EBITDA	Adjusted EBIT plus share-based compensation charges, non-cash charges, depreciation and amortisation, but excluding any depreciation or amortisation costs included in our adjusted items (e.g. amortisation of acquired intangibles).
Adjusted PBT	Adjusted EBIT less net finance income
Free cash flow	Cash generated by operating activities less capital expenditure and before adjusted items and tax.

	A reconciliation of this metric is provided below.
Net cash	The amount of cash held less debt at year end.
Investment measures	
Investment in New Customers	The Investment in New Customers during the year, including contribution profit/loss from New Customer sales and advertising costs.
New Customer Contribution loss	The contribution earned from sales to New Customers.
5-Year Forecast Payback	The ratio of projected future repeat contribution we expect to earn from the New Customers recruited in the year divided by the Investment in New Customers. We forecast contribution at a customer level using a Machine Learning (ML) model which weighs several key characteristics including retention, order frequency and order value, along with customer demographics and non-transactional data. The ML algorithms then predict transactions forecast over a five-year horizon. This is then aggregated to a monthly, then annual, cohort level for reporting purposes.
Lifetime Value/LTV	The future Repeat Customer Contribution profit we expect to earn from customers recruited in a discrete period of time. We calculate this future contribution using a Machine Learning (ML) model. Collecting data for a number of key customer characteristics, including retention, order frequency and order value, along with customer demographics and non-transactional data, the ML algorithms then predict the future (lifetime) value of that customer over a five-year horizon.
Repeat Customer Contribution profit	The profit attributable to sales meeting the definition of sales to Repeat Customers after fulfilment and service costs.
Repeat Customer sales retention	The proportion of sales made to customers who met our definition of “Repeat” last year that were realised again this year from the same customers. Using our website data, the population who were subscribers in the prior year are identified and their sales in the current year then assessed. This is done for each month and summed to calculate the full year retention.
Standstill EBIT	The adjusted EBIT that would be reported if Investment in New Customers was reduced to the level needed to just replenish the current customer base. A reconciliation of this metric is provided below.
Year 1 Payback	This short-term payback measure shows the actual return in this financial year of our investment in the prior year.

Free cash flow

	Year ended 28 March 2022	Year ended 29 March 2021
	£m	£m
Adjusted EBIT	**2.0**	(1.5)
Add back depreciation and amortisation *(excludes adjusted amortisation of acquired intangibles)*	**2.3**	1.7
Add back IFRS 2 charges	**1.3**	0.8
Adjusted EBITDA	**5.6**	1.0

Working capital movement

Inventories	**(61.2)**	(9.2)
Deferred income	**3.6**	28.2
Trade and other receivables	**(1.8)**	(1.4)
Trade and other payables	**12.9**	15.6
Repayments of principal under lease liabilities	**(0.8)**	(0.9)
Working capital movement	**(47.3)**	32.3
Pre-tax operating cash flow	**(41.7)**	33.3
Capital expenditure	**(1.9)**	(2.7)
Free cash flow	**(43.6)**	30.6
Reconciliation to statutory cash flow statement		
Free cash flow	**(43.6)**	30.6
Capital expenditure	**1.9**	2.7
Repayments of principal under lease liabilities	**0.8**	0.9
Net cash (used in)/generated by operations	**(40.9)**	34.2

Standstill EBIT			Pro forma[2]
	Year ended 28 March 2022	Year ended 29 March 2021	Year ended 28 March 2022
	£m	£m	£m
Standstill EBIT is calculated as:			
Repeat Customer Contribution profit (a)	**86.2**	84.9	86.2
Less: replenishment spend (e)	**(25.0)**	(12.2)	(19.2)
Less: General and administrative costs[1]	**(40.0)**	(33.4)	(40.0)
	21.2	39.3	27.0
(a) Repeat Customer Contribution profit	**86.2**	84.9	86.2
(b) Repeat Customer sales retention	**80.4%**	88.2%	84.0%
(c) Repeat Customer Contribution profit lost to attrition (a x (1-b))	**16.9**	10.0	13.8
(d) Year 1 Payback	**67.5%**	82.0%	72.2%
(e) Spend to replenish lost repeat contribution (c/d)	**25.0**	12.2	19.2

1. General and administrative costs exclude £1.3 million amortisation, £1.1 million fair value adjustments, £0.1 million adjustment for foreign exchange revaluations and £3.0 million Marketing R&D spend.

2. In response to feedback from shareholders, we report here an additional standstill EBIT calculation which uses a trailing three-year simple average for sales retention and Year 1 Payback. This is in response to the more than usual changes in these metrics due to the pandemic-related lockdowns.